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Tucson Electric Power Company

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AZ CORP COMMISSION
DOCUMENT CONTROL

February 5, 2004

Docket Control
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, AZ 85007

Re: Tucson Electric Power Company's Comments to Staff Memorandum and Recommended Order Docket No. RE-00000C-00-0377

Docket Control:

Enclosed please find one original and twenty-one (21) copies of Tucson Electric Power Company's comments to Staff's Memorandum and Recommended Order "In the Matter of the Continuation of the Scheduled Increase of the Portfolio Percentage Specified in R14-2-1618(B) of the Environmental Portfolio Standard Rules.

If you have questions or comments please contact me at 520-745-3422.

Best regards,

David Couture

David Couture
Director, Regulatory Services

Enclosures

cc: Tom Hansen
Jason Musgrove

Arizona Corporation Commission
DOCKETED

FEB 05 2004

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

MARC SPITZER, Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON
KRISTIN K. MAYES

IN THE MATTER OF THE CONTINUATION OF THE SCHEDULED INCREASE OF THE PORTFOLIO PERCENTAGE SPECIFIED IN R14-2-1618 B OF THE ENVIRONMENTAL PORTFOLIO STANDARD RULES.	DOCKET NO. RE-00000C-00-0377

COMMENTS OF TUCSON ELECTRIC POWER COMPANY TO STAFF MEMORANDUM AND RECOMMENDED ORDER

Tucson Electric Power (TEP) hereby submits these Comments to the Staff Memorandum and Recommended Order in the above-captioned proceeding. These Comments address the Environmental Portfolio Standard (EPS) and the Cost Evaluation Working Group's (CWEG) June 2003 Final Report. TEP supports the laudable goals of the EPS and urges the Commission to adopt a mechanism that will continue the EPS and provide the necessary funding to meet its goals.

The Success of the EPS

TEP has been an active participant in the proceedings and workshops regarding the EPS and believes that the EPS has been primarily responsible for providing the program and funds that has resulted in Arizona being a national leader of solar energy generation development. The EPS is providing a wealth of credible information regarding the costs and performance of renewable generation. Additionally, the EPS has made available real-time data that the utilities can use in understanding the characteristics of intermittent renewable resources like solar and wind for eventual integration into their grid dispatch portfolio.

The EPS has aggressive solar energy percentage goals, which have provided incentives for the development of over 8,000 kW of new solar PV installations in just three short years.

The EPS funding mechanism allows for finance-free renewable resource asset development because it supports "Pay as You Build" financing. The initial installation of renewable generation such as solar is capital intensive, while the cost of operation is low. A dramatic reduction in the life cycle cost of solar generation can be realized when financing costs are eliminated. This in turn encourages innovative designs and construction practices at both utility-scale PV installations and customer-sited PV installations, which results in reduced system costs. In addition, because up-front funding is available, the financial risk of entering into long term contracts for energy developed from a declining cost technology is reduced.[1] Furthermore, utilities can reinvest the revenues derived from sale of solar generated electricity into additional funding for renewable generation in following years.[2]

<u>The Critical Issue for the Future EPS</u>

The present issue before the Commission is the manner in which to continue the EPS. The CWEG Final Report presented two options:

> ***Option 1***: Take no action at this time and leave the annual renewable energy target at 0.8 percent of retail energy sales until a future review determines that either Portfolio Standard funding is sufficient, or solar generation costs have declined to the point for Portfolio Standard program success for all utilities at the 0.8 percent level, then increase the program percentage to 1.1 percent.

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1 Long term contracts entered into for energy from a declining cost technology like solar will always have a higher net present value per unit of energy than building the technology with the same cash flow as dollars are available. Long term contracts are appropriate when the technology has matured, the prices are stable and robust competition is supported.

2 These new dollars will be available for leverage as the cost of solar technologies declines in future years, further increasing the effectiveness of those revenues for funding solar generation development in the future. These revenues benefit all customers, not just those installing PV systems.

Option 2: Continue the renewable energy requirement increase to 1.1 percent by 2007.

The Staff has recommended that the Commission adopt Option Two. TEP supports the policy and goals embodied in the EPS and generally supports either of the two options presented. However, for either option to be successful, the critical issue is funding.

The CEWG reported a clear consensus that the EPS, as originally envisioned, did not provide sufficient funding for all utilities to meet the EPS renewable energy goals of 0.8 percent in the timeframe required [Option One]. TEP is an excellent example of a utility company striving to comply with the EPS. TEP will have an installed photovoltaic (PV) capacity of nearly 6.0 watts per capita at the end of 2003, yet will only meet about 50 percent of its 2003 Portfolio Standard annual renewable solar energy goal. This is despite the fact that TEP, after less than three years of implementing the EPS solar goals, will in 2003 produce more than twice the solar electricity per capita than the highly regarded solar development programs of Japan or Germany.[3] The present EPS post-2007 goals will result in the installation of solar generation capacity of at least 12 watts per person.

If the current EPS does not provide sufficient funding, it is apparent that the utility companies will not be able to meet the energy goals of 1.1 percent by 2007 [Option Two] without additional funding.

Therefore, TEP urges the Commission to provide sufficient funding through the Portfolio Standard surcharge and System Benefit Charge without deferral of those costs. Enhancing the

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[3] The countries of Japan and Germany, considered to have the most aggressive national solar development programs in the world, have both recently reached a point where they each have a PV installed capacity of just over 4 watts per capita, and both have announced that their PV incentive programs have ended.

funding mechanism should ensure a realistic opportunity for success of all utilities in meeting the EPS annual energy percentage goals with a prudent renewable energy development program.

TEP recommends that a Commission sponsored workshop review of costs and benefits of the EPS be performed at least every two years to provide data reference for future decisions regarding development of renewable generation resources.

RESPECTFULLY SUBMITTED this 5th day of February 2004.

Tucson Electric Power Company

David Couture

David Couture
Director, Regulatory Services

Original and 21 copies of the foregoing
filed this 5th day of February 2004, with:

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Copy of the foregoing hand-delivered/mailed
this 5th day of February 2004 to:

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Copy of the foregoing transmitted via mail, fax or email to parties of record.

By Mary Ippolito